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OFFICE OF
INSURANCE COMMISSIONER

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BULLETIN No. 94-9

Application of Premium Tax to Disability and Health Coverage

**Attention: Disability Insurers Health Care Service Contractors Health Maintenance Organizations
Certified Health Plans**

General

Effective January 1, 1994, a 2% tax was imposed on all premiums and prepayments for health care services received by Health Care Service Contractors ("HCSCs"), Health Maintenance Organizations ("HMOs"), and Certified Health Plans ("CHPs"). The tax is imposed by RCW 48.14.0201. A similar tax was already imposed on disability insurers by RCW 48.14.020. (In this Bulletin, those premiums and prepayments are referred to as "premiums" and all those classes of entities are referred to as "carriers.")

Due Dates and Form Premium tax returns and final payments for each calendar year are due March 1 of the following year, with prepayments required as described below. Penalties will be assessed on delinquent payments. Premium tax return forms and instructions will be mailed to you in January of each year. Only that tax form may be used. Submissions on other forms, including computerized tax forms, will be returned as incomplete filings.

Prepayment Prepayment of the premium tax is required by RCW 48.14.025 and RCW 48.14.0201(3). The minimum prepayment amount is based on the previous year's premium volume. Coupons will be mailed to you in May of each year. The prepayment amount is to be paid in three installments: 45% on June 15, 25% on September 15, and 25% on December 15. The difference between the tax liability and the prepayments must be paid with the filing of the tax return on March 1. If prepayments exceed the total tax liability, a refund will be issued after the tax return has been filed. (Smaller prepayments may be approved, upon good cause shown in advance.)

Determining Taxable Premium

"Taxable Premium" in General All receipts in exchange for the assumption of risk related to health coverage or in prepayment for health care are "premiums" for purposes of the tax. This is true whether the receipts are characterized as premiums, prepayment for health care services, advance deposit, claims reimbursement rate, contractual rate, pooling point charge, retention, rate stabilization, or any other term, similar or dissimilar.

Imposition of Tax The tax is imposed on all premiums, less exempt premiums and allowable deductions. Payments for administering a truly self-funded ERISA plan are not "premiums" for this purpose.

Selected Exemptions for HMOs, HCSCs, CHPs The exemptions and deductions for disability companies, taxed under RCW 48.14.020, were not changed by the new law. For the HCSCs, HMOs, and CHPs, we invite your attention to certain exemptions. (This is not an exhaustive list.)

Subsidized premiums received from the Basic Health Plan (nonsubsidized premium is not exempt). RCW 70.47.130.

Premiums received from the Federal Employees Health Benefits Act fund. 5 U.S.C., 8901(f)(1).

Premiums for health care services provided under Title XVII (Medicare) of the federal social security act. RCW 48.14.0201(6)(a).

For HCSCs only, certain payments for dental services. RCW 48.14.0201(6)(b).

Note that no deduction is allowed for assessments paid by HMOs, HCSCs, or CHPs to the Washington State Health Insurance Pool. The deduction allowed in RCW 48.14.022(2) applies only to taxes under RCW 48.14.020. (This is contrary to advice previously given.)

Commissions are not deductible from premiums.

"Minimum Premium" and Other Contracts All premiums received or collected by a carrier for all underwritten contracts, agreements, or policies, are subject to the premium tax. This includes all amounts collected on minimum premium contracts, agreements, and policies.

Summary and Rule of Thumb If the carrier assumes any risk for the provision of or payment for health care services, then the receipts by the carrier are premiums subject to premium tax.

For further information call Bev Dyal, 206-753-2405.

Insurance Commissioner